

BRIDGEND COUNTY BOROUGH COUNCIL

AUDIT COMMITTEE

8th NOVEMBER 2007

REPORT OF THE EXECUTIVE DIRECTOR – RESOURCES

ANALYSIS OF MONTH 12 EXPENDITURE

1. Purpose of this report

The purpose of this report is to respond to issues by the Council's external auditors, KPMG, at the Audit Committee meeting of 24th September regarding the amount of expenditure incurred by Directorates in month 12 of the financial year.

2. Connections to Corporate Improvement Plan

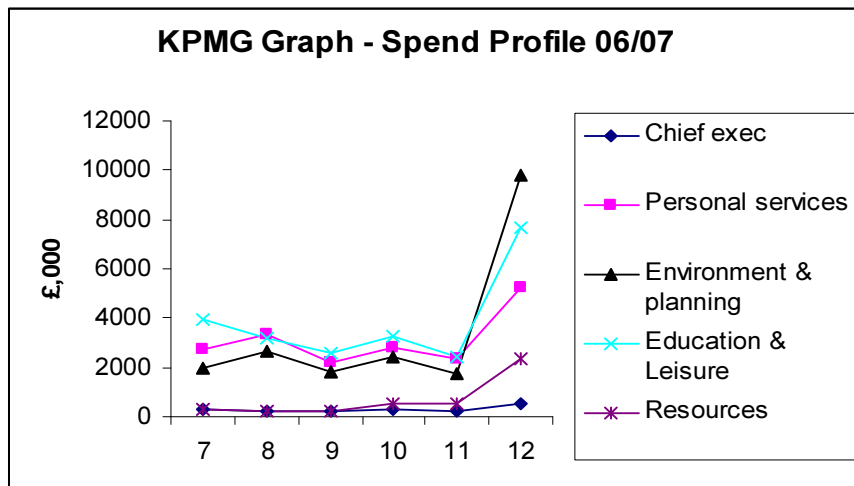
Ensuring that resources are used in the most appropriate way is critical to the achievement of the priorities and objectives in the Corporate Improvement Plan.

3. Background

At the Audit Committee meeting of 24th September 2007, the Statement of Accounts for 2006/07 was presented along with a report (in the form of a presentation) by KPMG. Within this report, reference was made to the sharp increase in expenditure incurred by Directorates in the last month of the financial year.

The following graph was included in that report to demonstrate the level of the increase in expenditure. The expenditure data used by KPMG excluded some known year end adjustments such as capital charges, but also included some items which have traditionally been posted to ledgers at year end.

Graph 1

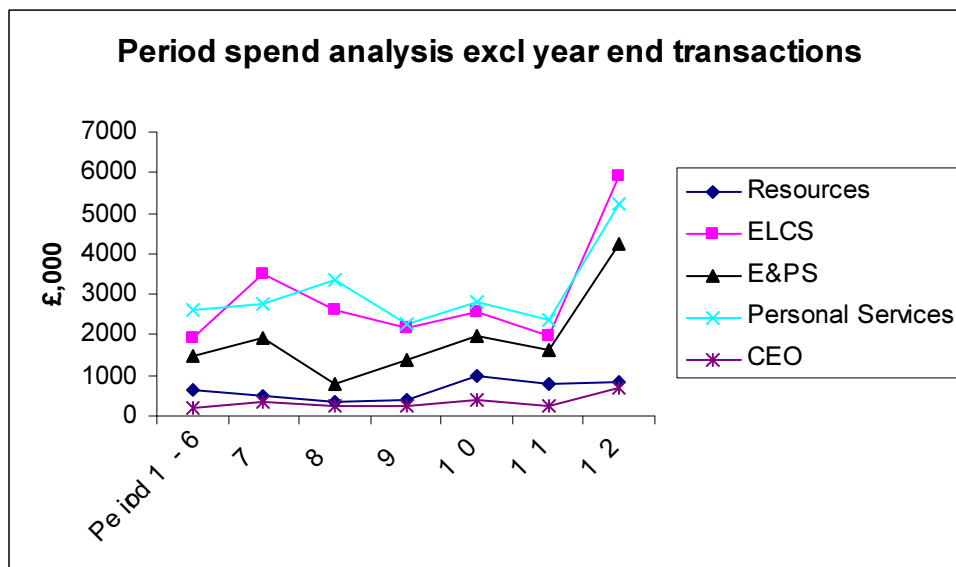


Some further analysis has been carried out to exclude the effect of year end transactions and to identify, as far as possible, the true level of increased spend at year end. The analysis also identified items which have been posted at year end which could better be posted during the financial year in order to assist in budget monitoring.

4 Current Situation

The following graph shows the level of non pay expenditure per month with all year end transactions (other than reserve creditors) removed.

Graph 2



It can be seen that there is still a noticeable increase in spend in the 3 service directorates in the last month of the year. Further analysis has been carried out to identify the reasons for this increase. This analysis took the form of a comparison of spend between month 11 and month 12 to identify any significant variations.

Some of the reasons identified for the higher spend in period 12 were:

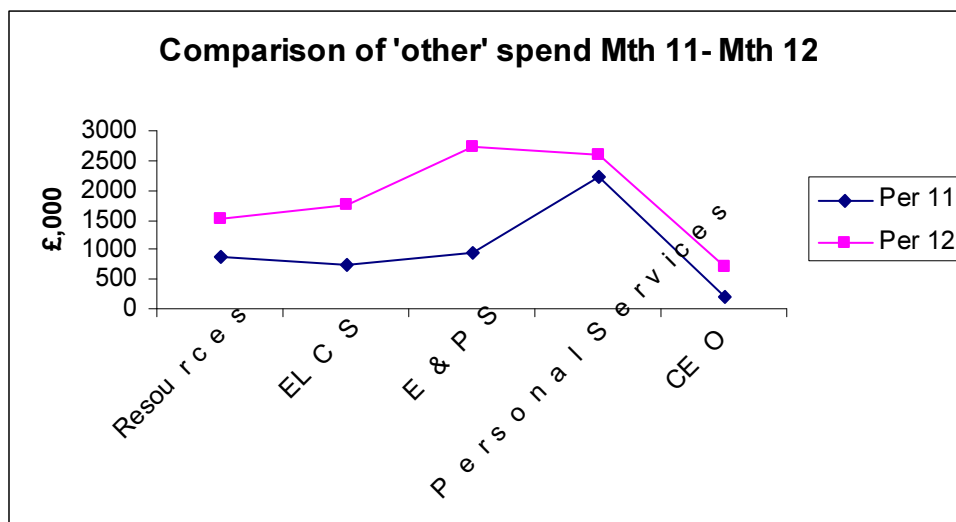
- More than one months transactions from feeder files being processed in month 12, eg the schools financial system SIMS had transactions for month 11 and month 12 processed in month 12. Even so, there is still evidence of increased year end spend within these totals as the total value of the uploads was £554k in month 10, £669k in month 11 and £1.4m in month 12.
- Month 12 spend includes 'reserve creditors' which is payment for goods and services received but for which the invoice has not yet been paid. As invoices are normally paid 30 days in arrears this tends to result in 2 months spend in

month 12 with no spend in month 1 to compensate. These accounted for £6.6m of the increased spend in month 12.

- Increased spend on repairs and maintenance at year end. Some of this spend is to reflect 'work in progress' at year end which is not reflected during the year, some reflects the fact that there is pressure to complete jobs by year end to utilise budgets.
- Internal transactions where one directorate charges another for goods or services provided are often left until year end. This can be a more efficient method of charging as it means processing one invoice rather than 12. The downside of this is that it is not helpful for budget monitoring purposes.

There is also evidence of a general increase in expenditure at year end, presumably to maximise use of budgets. The following graph provides a directorate by directorate analysis of 'other' spend, with the effect of all year end transactions and multi month feeders removed.

Graph 3



There are ways that the impact of the increase in expenditure at year end can be mitigated to improve the overall expenditure profile of the Authority and to assist in budget monitoring. These include:

- Ensuring that all feeder systems are processed promptly so that each month's transactions are reflected in the ledger for that month.
- Having month end close down processes in place so that reserves for unpaid invoices are created at the end of each month and reversed into the following month. This would smooth out the impact of the year end reserve creditors and provide improved information for budget monitoring. This is

both resource intensive and time consuming. The benefits will need to be compared against the extra resources required. Ideally an automated ordering system which can easily be deployed throughout the authority would be needed for this to be cost effective, accurate and produce timely information.

- Implementing a planned repairs and maintenance programme using asset management techniques should avoid the need to spend at year end.
- Ensuring that any internal charging is processed promptly, ideally as soon as the goods / services are supplied but at worst by the end of the appropriate month to ensure that both income and expenditure are reflected accurately in the ledger.
- All budget holders should also be made aware that spending at year end to use up unspent budget is to be discouraged given the financial constraints currently facing the council.

5. Effect upon Policy Framework and Procedure Rules

There is no direct effect upon the Policy Framework or Procedure Rules at this stage.

6. Legal Implications

There are no legal implications to this report.

7. Financial Implications

The financial implications are reflected in the report.

8. Conclusions

1. There is scope for processes to be improved to spread transactions in the ledger more accurately throughout the year to provide better information for budget monitoring.
2. As a first step it is proposed to carry out 'close down' procedures at each quarter end to coincide with quarterly budget monitoring reports to Cabinet. This will help to spread the effect of year end transactions. Once the resource implications of these processes have been identified, consideration could be given to monthly closedowns but ideally an automated ordering system which can easily be deployed throughout the authority would be needed for this to be cost effective , accurate and produce timely information.
3. There is some evidence of budget managers increasing spend at year end in order to use up budget allocations. A strong message is required to discourage this practice.

9. Recommendations

- 1. That all feeder systems be uploaded into the financial ledger in the month to which they relate.**
- 2. That all internal transactions be processed into the ledger in the month to which they relate.**
- 3. That in the first instance, quarter end close down procedures be introduced by finance managers.**
- 4. That the costs and benefits of month end close down procedures be assessed once the resource implications of the quarter end closedown process have been identified.**
- 5. That a strong message be given to all budget managers that the practice of spending at year end to utilise budget allocations should be discouraged.**

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26 October 2007

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Background Papers

Presentation by KPMG to Audit Committee 24th September 2007
Information within Council's financial system